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SUBJECT: SLOVENIA PRESENTS GLOOMIER 2009 FINANCIAL FORECASTS

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¶1. Summary. On 13 November, Maja Bednas, Deputy Director of the GoS think-tank the Institute for Macroeconomic Analysis and Development (IMAD),presented a disheartening account of the impact of the global financial crisis on Slovenia. Bednas gave specific forecast numbers for Slovenia, focusing on how IMAD revised each of those numbers downwards. 2009 GDP growth has now been lowered to 3.1%, down from 6.8% in ¶2007. She stressed the prospects for 2009 are worsening and that the 3.1% was already being revised and would definitely be lowered further as the global recession impacts Slovenia's major trading partners. Hardest hit will be durable goods exporters as demand dries up and SMEs who are finding it harder to secure capital from banks. The incoming government will likely have to revise the 2009 budget to factor in lower growth and decreased budget revenues, and may end up with a deficit instead of the earlier-predicted surplus. Unemployment is not expected to rise significantly because job cuts will mostly hit foreign workers who are expected to return to their home countries. End Summary.

¶2. Bednas presented a pessimistic outlook for 2009. IMAD revised real growth in GDP for 2009 downward from its March 2008 prediction of 4.1% to a September 2008 prediction of 3.1% (down from a 2007 GDP growth rate of 6.8%). Exports of goods and services in 2009 are now expected to grow at 3.1%, revised downwards from a March 2008 estimate of 9.4% (and down from the 2007 growth rate of 13.8%). 2009 projected import growth was reduced from 7.5% in March to 5.2% in September (down from 15.7% in 2007). However, both private and government consumption growth rates remained fairly stable. Government consumption will grow at 2.2% (down from just 2.5% in 2007) and private consumption will grow at 3.5%, revised down 0.2% since March (from 5.0% in 2007.)

¶3. According to Bednas, each week the numbers look worse. She said the 3.1% figure for GDP growth was already assumed to be too high and would be lowered further. The slowdown in Slovenia's most important export markets, especially Germany, will continue to negatively affect Slovenia. She explained that all of Slovenia's major trading partners will experience recession, which will hit Slovenia's export companies hard, especially companies producing durable goods such as car parts and household appliances. However, all export sectors will be affected. Previously Slovenia had considered the former Yugoslavia and Eastern Europe as buffer markets, but the situation there is much worse than thought in September.

¶4. Bednas noted that Slovenian banks are still giving loans but on worse terms. The hardest hit are SMEs, which are experiencing problems financing investment in current operations. Construction companies are also having difficulties getting loans.

¶5. Bednas speculated that the current financial crisis will have budget implications for Slovenia. Slovenia adopted its 2009 budget in the fall of 2007, when growth was predicted to be 4.1%. This would have resulted in a small budget surplus. Now with the worsening of economic conditions, decreased

budget revenues and higher expenditures, as well as social-spending measures in the coalition agreement that forms the basis for the incoming government, there will be greater pressure on the budget. Bednas could not predict what the budget deficit would be, but opined that the new government would have to revise the 2009 budget due to worsening economic conditions.

¶6. Although Bednas noted that the unemployment number would rise, a large part of the affected would be temporary employees, notably in the construction sector. There are 87,000 foreign workers in Slovenia, and these workers are likely to return to their home country when the jobs disappear, thereby reducing the impact on Slovenia's overall unemployment rate.
GHAFARI